Report No.
FSD17019

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Resources Portfolio Holder** **Council**
Date:	**For Pre-Decision Scrutiny by the Executive and Resources PDS Committee on 1st February 2017** **Council 20th February 2017**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**TREASURY MANAGEMENT - ANNUAL INVESTMENT STRATEGY 2017/18**
Contact Officer:	James Mullender, Principal Accountant Tel: 020 8313 4292 E-mail: james.mullender@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

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1. Reason for report

1.1. This report presents the Treasury Management Strategy and the Annual Investment Strategy for 2017/18, which are required by the CIPFA Code of Practice for Treasury Management in the Public Services (revised in 2009 and updated in 2011) to be approved by the Council. The report also includes prudential indicators and the MRP (Minimum Revenue Provision) Policy Statement, both of which require the approval of the Council. For clarification, we are required by statute to agree and publish prudential indicators, primarily to confirm that the Council's capital expenditure plans are affordable and sustainable. As Members will be aware, Bromley does not borrow to finance its capital expenditure and, as a result, many of the indicators do not have any real relevance for the Council. The 2016/17 strategy, agreed by Council in February 2016, was updated in September 2016 as detailed in para 3.2.5, and no further changes are proposed at this time.

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2. RECOMMENDATION(S)

2.1. The Executive and Resources PDS Committee, the Resources Portfolio Holder and Council are asked to:

a) Note the report, and

b) Agree to adopt the Treasury Management Statement and the Annual Investment Strategy for 2017/18 (Appendix 1 on pages 7-34 of this report), including the prudential indicators (summarised on page 34) and the Minimum Revenue Provision (MRP) policy statement (page 11).

Corporate Policy

1. Policy Status: Existing policy. To maintain appropriate levels of risk, particularly security and liquidity, whilst seeking to achieve the highest rate of return on investments.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: N/A

2. Ongoing costs: N/A.

3. Budget head/performance centre: Interest on balances

4. Total current budget for this head: £3,491k (net) in 2016/17; £450k surplus currently projected, draft budget for 2017/18 £2,891k

5. Source of funding: Net investment income

Staff

1. Number of staff (current and additional): 0.25 fte

2. If from existing staff resources, number of staff hours: 9 hours per week

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Legal

1. Legal Requirement: Non-statutory - Government guidance.

2. Call-in: Not applicable

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.

2. Summary of Ward Councillors comments:

3. COMMENTARY

3.1. General

3.1.1. Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required, as a minimum, to approve an annual treasury strategy in advance of the year, a mid-year review report and an annual report following the year comparing actual activity to the strategy. In practice, the Director of Finance has reported quarterly on treasury management activity for many years, as well as reporting the annual strategy before the year and the annual report after the year-end.

3.1.2. The part-year review for 2016/17 was reported to this PDS Committee in November and was approved by Council in December. This report presents the annual strategy (Appendix 1), including the MRP Policy Statement (page 11) and prudential indicators (summarised on page 34) for 2017/18 to 2019/20. Details of treasury management activity during the quarter ended 31st December 2016 are included in a report elsewhere on the agenda.

3.2. Treasury Management Strategy Statement and Annual Investment Strategy 2017/18

3.2.1. Appendix 1 sets out the Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18. This combines the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services (revised in 2009 and updated in 2011) and the Prudential Code. The Strategy includes throughout details of proposed prudential indicators, which are summarised in Annex 3 (page 34) and will be submitted for approval to the February Council meeting. Many of the indicators are academic as far as the Council is concerned, as they seek to control debt and borrowing (generally not applicable for Bromley), but they are a statutory requirement.

3.2.2. Members will be aware that, since the Icelandic bank crisis in October 2008, the Council has approved a number of changes to the eligibility criteria and maximum exposure limits (both monetary and time) for banks and building societies. The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one of which meets the Council's criteria while the other does not, the institution will fall outside the lending criteria. The Council also applies a minimum sovereign rating of AA- to investment counterparties.

3.2.3. While the Council effectively determines its own eligible counterparties and limits, it also uses Capita Treasury Solutions as an advisor in investment matters. Capita use a sophisticated modelling approach that combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes indicate Capita's recommendations on the maximum duration for investments. The Council will use its own eligibility criteria for all investment decisions, but will also be mindful of Capita's advice and information and will not use any counterparty not considered by Capita to be a reasonable risk. In line with the requirements of the CIPFA Treasury Management Code of Practice, the Council will always ensure the security of the principal sum and the Council's liquidity position before the interest rate.

3.2.4. As is highlighted in the Treasury Performance report elsewhere on the agenda, a number of UK banks have been the subject of credit ratings downgrades in recent years, which has resulted in reductions to the number of eligible counterparties and to monetary and duration limits on the Council's lending list. It should be emphasised that the downgrades were, in most cases, relatively minor and were not an indication of a likely bank default, but,

nevertheless, they were enough to impact on the Council's lending list. As a result, the total of investments placed with money market funds has increased significantly in recent years, although this has reduced following Council approval to investment in pooled vehicles and increased limits for the part-nationalised banks, Lloyds and RBS.

3.2.5. The treasury management strategy is kept under constant review and, at its meeting on 26th September 2016, Council approved the following changes:

- A reduction to the sovereign rating criteria to AA-;
- A reduction to the individual counterparty rating criteria to BBB+;
- An increase to the maximum investment period with Banks 1C category from 6 months to 1 year;
- The inclusion of investments with Housing Associations; and
- The inclusion of Variable Net Asset (VNAV) Money Market Funds.

No investments have been made to date in these categories (other than continued investments with UK banks following the UK's sovereign rating downgrade to AA), and officers are continuing to explore investment opportunities in these areas. No further changes are proposed in this report.

3.2.6. Details of eligible types of investment and counterparties are set out in the Annual Investment Strategy (Annex 2 of Appendix 1, pages 30 to 33).

3.3. Regulatory Framework, Risk and Performance

3.3.1. The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing that may be undertaken (although no restrictions have been made to date);

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under the Act, the CLG has issued Investment Guidance to structure and regulate the Council's investment activities;

- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

3.3.2. The Council has complied with all of the above relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular, its adoption and implementation of both the Prudential Code and the Code of

Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low risk approach.

4. POLICY IMPLICATIONS

4.1 In line with government guidance, the Council's policy is to seek to achieve the highest rate of return on investments whilst maintaining appropriate levels of risk, particularly security and liquidity.

5. FINANCIAL IMPLICATIONS

5.1 At the time of setting the 2016/17 budget, there was still no sign of interest rates improving, so an average rate of 1% was again been prudently assumed for interest on new fixed term deposits, in line with the estimates provided by the Council's external treasury advisers, Capita, earlier in the year and with officers' views. There have been no improvements to counterparty credit ratings, as a result of which the restrictions to investment opportunities that followed ratings downgrades in recent years have still been in place. However, the increases in the limits for the two part-nationalised banks (Lloyds and RBS) approved by the Council in October 2014, together with higher rates from longer-term deals placed with other local authorities, higher average balances than anticipated and the strong performance of the CCLA Property Fund enabled the 2016/17 budget to be increased to £3,491k, after allowing for foregone interest earnings as a result of further property acquisitions.

5.2 Following the Bank of England base rate cut in August 2016, the Council has seen a significant reduction in the rates offered for new fixed-term deposits as well as overnight money market funds. Despite this, a surplus of £450k is currently projected for the year, mainly due to the increased balances available for investment.

5.3 With regard to 2017/18, the draft budget has been reduced to £2,891k, a reduction of £600k to reflect reduced interest earnings as maturing investments are re-invested (an average rate of 0.9% for new investments has been assumed), as well as an expected reduction in balances available for investment as a result of further investment property acquisitions and other capital expenditure.

Non-Applicable Sections:	Legal, Personnel & Procurement Implications, Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	CIPFA Code of Practice on Treasury Management CIPFA Prudential Code for Capital Finance in Local Authorities CLG Guidance on Investments External advice from Capita Treasury Solutions